

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Norway</b>	County <b>Dickinson</b>
Audit Date <b>6/30/06</b>	Opinion Date <b>11/3/06</b>	Date Accountant Report Submitted to State: <b>12/20/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

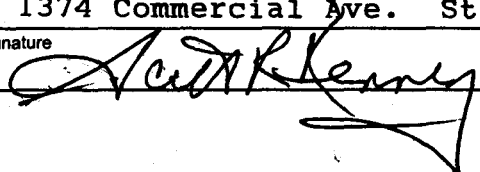
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) <b>Scott R. Kenney, CPA</b>			
Street Address <b>1374 Commercial Ave. Ste. 1</b>	City <b>Crystal Falls</b>	State <b>MI</b>	ZIP <b>49920</b>
Accountant Signature 		Date	

**CITY OF NORWAY**  
AUDITED FINANCIAL STATEMENTS  
NORWAY, MICHIGAN

Fiscal Year Ended June 30, 2006

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Norway  
915 Main Street  
Norway, Michigan 49870

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Norway, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2005.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member  
American Institute of Certified Public Accountants  
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Norway, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Certified Public Accountant

November 3, 2006

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 6.1% from a year ago - decreasing from \$15.986 million to \$15.014 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$1.059 million during the year (13.2% decrease). This is attributed to an increase in insurance costs, pension obligations, street construction projects and equipment purchases. The business-type activities experienced a \$87,000 increase in net assets, primarily as a result of charge increases approximating operating cost increases. A substantial increase in purchased power occurred during the year but was offset by an increase in charges. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current Assets	\$ 1,682	\$ 2,801	\$ 883	\$ 724	\$ 2,565	\$ 3,525
Noncurrent Assets	<u>15,767</u>	<u>14,077</u>	<u>13,819</u>	<u>13,692</u>	<u>29,586</u>	<u>27,769</u>
Total Assets	\$ 17,449	\$ 16,878	\$ 14,702	\$ 14,416	\$ 32,151	\$ 31,294
Long-Term Debt Outstanding	\$ 9,850	\$ 8,375	\$ 5,345	\$ 5,464	\$ 15,195	\$ 13,839
Other Liabilities	<u>651</u>	<u>496</u>	<u>1,290</u>	<u>973</u>	<u>1,941</u>	<u>1,469</u>
Total Liabilities	<u>\$ 10,501</u>	<u>\$ 8,871</u>	<u>\$ 6,635</u>	<u>\$ 6,437</u>	<u>\$ 17,136</u>	<u>\$ 15,308</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 10,743	\$ 10,062	\$ 7,421	\$ 7,201	\$ 18,164	\$ 17,263
Restricted	45	38	329	763	374	801
Unrestricted	<u>(3,840)</u>	<u>(2,093)</u>	<u>316</u>	<u>15</u>	<u>(3,524)</u>	<u>(2,078)</u>
Total Net Assets	\$ 6,948	\$ 8,007	\$ 8,066	\$ 7,979	\$ 15,014	\$ 15,986

Unrestricted net assets (deficit)—the part of net assets that can be used to finance day to day

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

operations, increased by \$1.8 million for the governmental activities. This represents an increase in the deficit of nearly 90%. The current level of unrestricted net assets for our governmental activities stands in a deficit position at \$3.840 million.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Charges for Services	\$ 161	\$ 183	\$ 4,929	\$ 4,592	\$ 5,090	\$ 4,775
Operating Grants and Contributions	396	348	0	0	396	348
Capital Grants and Contributions	114	0	163	0	277	0
General Revenues						
Property Taxes	\$ 851	\$ 825	\$ 0	\$ 0	\$ 851	\$ 825
State-Shared Revenues	330	327	0	0	330	327
Unrestricted Investment Earnings	81	61	7	4	88	65
Fines and forfeitures	9	5	0	0	9	5
Sale of land	1	(5)	0	0	1	(5)
Transfers and Other Revenue	<u>500</u>	<u>557</u>	<u>(489)</u>	<u>(408)</u>	<u>11</u>	<u>149</u>
Total Revenues	\$ 2,443	\$ 2,301	\$ 4,610	\$ 4,188	\$ 7,053	\$ 6,489
Program Expenses						
General Government	\$ 1,143	\$ 1,255	\$ 0	\$ 0	\$ 1,143	\$ 1,255
Public Safety	665	678	0	0	665	678
Public Works	1,471	1,286	0	0	1,471	1,286
Recreation & Culture	39	29	0	0	39	29
Interest on Long-Term Debt	184	185	0	0	184	185
Oak Crest Golf Course	0	0	518	467	518	467
Public Utilities	<u>0</u>	<u>0</u>	<u>4,005</u>	<u>3,683</u>	<u>4,005</u>	<u>3,683</u>
Total Expenses	<u>\$ 3,502</u>	<u>\$ 3,433</u>	<u>\$ 4,523</u>	<u>\$ 4,150</u>	<u>\$ 8,025</u>	<u>\$ 7,583</u>
Change in Net Assets	\$(1,059)	\$(1,132)	\$ 87	\$ 38	\$( 972)	\$(1,094)

The City's net assets remain at a very low level and continued to decrease this year. This can be attributed to aggressive spending in prior years using primarily debt financing without increasing revenues and current year capital purchases being financed with additional debt. Some new businesses have located in the City and construction continued at a steady pace this past year.



CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

Governmental Activities

The City's total governmental revenues increased by approximately \$142,000 due primarily to the sale of property during the year.

Cash expenditures increased approximately \$69,000 during the year. This was primarily due to inflationary increases and spending on some street construction projects.

Business-Type Activities

The City's business-type activities consist of the Television, Electric, Golf, Water and Sewer Funds. The City provides cable television and internet services to residents through its cable television system. The City also provides electric service to residents by generating hydroelectric power at its own facilities and supplements its customers needs with power purchased from WE Energies. The City owns and operates Oak Crest Golf Course in conjunction with Oak Crest Golf Club, Inc. The City provides water and sewer services to residents, which come from the City's own systems. The Electric Fund saw its revenues increase due to the receipt of an insurance claim of \$160,000 and an increase in line installation revenues of \$90,000. Water revenues increased by approximately \$80,000 and Sewer revenues increased by \$70,000 due to rate increases. Golf course expenses rose due to the recording of an incentive retirement for one of the employees. The electric fund again saw a large increase in the power purchased from WE Energies. This is attributable to rate increases that are substantially larger than the rate of inflation.

The City's Funds

Analysis of the City's major funds begins on page 13, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2005-2006 include the General Fund, Major Streets, Downtown Development Authority, Capital Projects and each of the business type funds.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

The additional major fund for 2005-2006 is the Major Street Fund which accounts for construction and maintenance of the City's Major Streets. Major Streets are defined by the Michigan Department of Transportation requirements.

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

General Fund Budgetary Highlights

Over the course of the year, the City Board amended the budget to take into account events during the year. In the General Fund, the most significant revenue changes were in State Shared Revenues which was decreased due to a drop in payments from the State of Michigan while the Police expenditure budget was increased due to larger outlay than was originally anticipated. The Major Street and Local Street Fund budgets were amended to increase the Winter Maintenance expenditures. The revenue budget in the Capital Projects Fund was increased for the Sale of Property and Interest which was decreased because of continued decline in interest rates and the consumption of cash to pay for ongoing commitments. Finally, the Museum Fund revenues and expenditures were increased for contributions and building costs. Other expenditure categories were adjusted by amounts aggregating to a like amount resulting in no change to the original net budget.

Capital Asset and Debt Administration

At the end of the 2005-2006 fiscal year, the City had more than \$29 million invested in a broad range of capital assets that are being systematically depreciated over the estimated useful lives of the various assets. These include snow removal equipment, police and fire equipment, land, buildings, community television/internet system, electric system, golf course, water and sewer systems. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads at the end of the 2005-2006 fiscal year exceeded \$12.4 million. These roads are maintained by the City with the costs recorded in the major and local street funds.

The capital acquisitions during the year were partially financed with additional loans totaling \$1.2 million in the governmental funds and \$204,000 in the business type funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2005-2006 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures and previously approved millage designated for roads and fire equipment. Because of the impact of Proposal A and a precarious cash position, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

The "streetscape" work was completed during 2005-2006 year and the necessary expenditures were budgeted accordingly. In addition, the City will assess the Street Millage for the first time in the 2006-2007 year and use the collections to service the debt associated with street repairs.

CITY OF NORWAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF NORWAY  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
June 30, 2006

	PRIMARY GOVERNMENT			
	GOVERNMENTAL	BUSINESS-TYPE		COMPONENT
	ACTIVITIES	ACTIVITIES	TOTAL	UNIT
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 587,446	\$ 24,013	\$ 611,459	\$ 129,572
Investments	215,446	0	215,446	0
Receivables - net	185,219	469,133	654,352	1,306
Inventory	11,039	107,203	118,242	88,517
Prepaid expenses	34,499	32,711	67,210	0
Other	19,964	0	19,964	0
Internal balances	628,611	250,000	878,611	0
TOTAL CURRENT ASSETS	\$ 1,682,224	\$ 883,060	\$ 2,565,284	\$ 219,395
RESTRICTED ASSETS - Cash and equivalents	\$ 1,009,930	\$ 598,295	\$ 1,608,225	\$ 0
NON-CURRENT ASSETS				
Property and equipment, net of depreciation	\$ 14,757,258	\$ 13,079,932	\$ 27,837,190	\$ 0
Other	0	140,321	140,321	0
TOTAL NON-CURRENT ASSETS	\$ 14,757,258	\$ 13,220,253	\$ 27,977,511	\$ 0
TOTAL ASSETS	\$ 17,449,412	\$ 14,701,608	\$ 32,151,020	\$ 219,395
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 40,323	\$ 118,332	\$ 158,655	\$ 31,893
Accrued and other liabilities	83,968	293,248	377,216	41,567
Interprogram payables	313,976	564,635	878,611	0
Current part of non-current liabilities	212,536	313,883	526,419	0
TOTAL CURRENT LIABILITIES	\$ 650,803	\$ 1,290,098	\$ 1,940,901	\$ 73,460
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 1,009,930	\$ 409,271	\$ 1,419,201	\$ 0
NON-CURRENT LIABILITIES				
Compensated absences	\$ 116,915	\$ 0	\$ 116,915	\$ 0
Bonds payable	3,801,905	0	3,801,905	0
Revenue bonds payable	0	4,935,930	4,935,930	0
Unfunded accrued actuarial pension liability	4,921,628	0	4,921,628	0
TOTAL NON-CURRENT LIABILITIES	\$ 8,840,448	\$ 4,935,930	\$ 13,776,378	\$ 0
TOTAL LIABILITIES	\$ 10,501,181	\$ 6,635,299	\$ 17,136,480	\$ 73,460
NET ASSETS				
Invested in capital assets, net of related debt	\$ 10,742,817	\$ 7,420,848	\$ 18,163,665	\$ 0
Restricted for				
Prepaid expenses	34,499	32,711	67,210	0
Inventory	11,039	107,203	118,242	88,517
Repair and reconstruction	0	189,024	189,024	0
Unrestricted	(3,840,124)	316,523	(3,523,601)	57,418
TOTAL NET ASSETS	\$ 6,948,231	\$ 8,066,309	\$ 15,014,540	\$ 145,935

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
Year ended June 30, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNIT
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Governmental Activities								
General government	\$ 1,143,157	\$ 0	\$ 0	\$ 0	\$ (1,143,157)		\$ (1,143,157)	
Public safety	664,756	0	68,580	0	(596,176)		(596,176)	
Public works	1,471,152	160,506	326,310	2,053	(982,283)		(982,283)	
Recreation and culture	39,495	0	1,000	112,484	73,989		73,989	
Interest and fees on long-term debt	184,264	0	0	0	(184,264)		(184,264)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>3,502,824</u>	\$ <u>160,506</u>	\$ <u>395,890</u>	\$ <u>114,537</u>	\$ (2,831,891)		\$ (2,831,891)	
Business-Type Activities								
Television	\$ 702,714	\$ 761,884	\$ 0	\$ 0		\$ 59,170	\$ 59,170	
Electric	2,104,096	2,439,971	0	163,147		499,022	499,022	
Oak Crest Golf Course	518,226	428,813	0	0		(89,413)	(89,413)	
Water	617,490	731,123	0	0		113,633	113,633	
Sewer	580,613	567,320	0	0		(13,293)	(13,293)	
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>4,523,139</u>	\$ <u>4,929,111</u>	\$ <u>0</u>	\$ <u>163,147</u>		\$ 569,119	\$ 569,119	
Component Unit - Oak Crest Golf Club, Inc.	\$ <u>378,675</u>	\$ <u>358,820</u>	\$ <u>0</u>	\$ <u>0</u>				\$ (19,855)
GENERAL REVENUES								
Property taxes					\$ 851,471	\$ 0	\$ 851,471	\$ 0
State shared revenues and grants					329,768	0	329,768	0
Unrestricted investments earnings					80,894	6,980	87,874	524
Fines and forfeitures					8,836	0	8,836	0
Other					11,455	0	11,455	60,689
SPECIAL ITEM-Gain (loss) on sale of land					1,149	0	1,149	0
TRANSFERS					488,980	(488,980)	0	0
TOTAL GENERAL REVENUES AND SPECIAL ITEMS					\$ <u>1,772,553</u>	\$ <u>(482,000)</u>	\$ <u>1,290,553</u>	\$ <u>61,213</u>
CHANGE IN NET ASSETS					\$ (1,059,338)	\$ 87,119	\$ (972,219)	\$ 41,358
Net assets - beginning					<u>8,007,569</u>	<u>7,979,190</u>	<u>15,986,759</u>	<u>104,577</u>
NET ASSETS - ENDING					\$ <u>6,948,231</u>	\$ <u>8,066,309</u>	\$ <u>15,014,540</u>	\$ <u>145,935</u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
GOVERNMENTAL FUNDS BALANCE SHEET  
COMBINED BALANCE SHEET  
June 30, 2006

	GENERAL FUND	MAJOR STREETS	DOWNTOWN DEVELOPMENT AUTHORITY	CAPITAL PROJECTS	NON-MAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>						
Cash and equivalents	\$ (205,127)	\$ 109,025	\$ 311,135	\$ 283,298	\$ 89,115	\$ 587,446
Investments	215,446	0	0	0	0	215,446
Taxes and accounts receivable	27,908	0	0	3,461	0	31,369
Due from other funds	628,611	0	0	0	0	628,611
Due from other governmental units	102,832	36,112	0	0	14,906	153,850
Inventory	11,039	0	0	0	0	11,039
Prepaid expenses	34,499	0	0	0	0	34,499
Bond discount	0	0	19,964	0	0	19,964
Restricted assets	0	0	2,311	1,007,619	0	1,009,930
<b>TOTAL ASSETS</b>	<b>\$ 815,208</b>	<b>\$ 145,137</b>	<b>\$ 333,410</b>	<b>\$ 1,294,378</b>	<b>\$ 104,021</b>	<b>\$ 2,692,154</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 25,337	\$ 5,852	\$ 0	\$ 1,612	\$ 7,522	\$ 40,323
Accrued payroll expense	26,163	478	0	0	1,283	27,924
Accrued taxes and withholdings	29,897	36	0	0	98	30,031
Due to other funds	250,000	0	0	63,976	0	313,976
Accrued interest	0	0	0	0	0	0
Other liabilities	1,233	0	0	0	0	1,233
<b>TOTAL LIABILITIES</b>	<b>\$ 332,630</b>	<b>\$ 6,366</b>	<b>\$ 0</b>	<b>\$ 65,588</b>	<b>\$ 8,903</b>	<b>\$ 413,487</b>
<b>FUND BALANCE</b>						
Reserved for						
Prepaid expenses	\$ 34,499	\$ 0	\$ 0	\$ 0	\$ 0	\$ 34,499
Inventory	11,039	0	0	0	0	11,039
Bond discount	0	0	19,964	0	0	19,964
Unreserved	437,040	138,771	313,446	1,228,790	95,118	2,213,165
<b>TOTAL FUND EQUITY</b>	<b>\$ 482,578</b>	<b>\$ 138,771</b>	<b>\$ 333,410</b>	<b>\$ 1,228,790</b>	<b>\$ 95,118</b>	<b>\$ 2,278,667</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 815,208</b>	<b>\$ 145,137</b>	<b>\$ 333,410</b>	<b>\$ 1,294,378</b>	<b>\$ 104,021</b>	<b>\$ 2,692,154</b>

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
RECONCILIATION OF BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2006

Total fund balance - total governmental funds	\$ 2,278,667
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	14,757,258
Accrued interest payable not recorded on governmental financial statements	(24,780)
Long term liabilities:	
Bonds/loans not due and payable with the current period and not reported in the funds	(5,024,371)
Accumulated employee vacation and personal pay not used in current period	(116,915)
Unfunded accrued actuarial pension liability not payable in the current period	<u>(4,921,628)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>6,948,231</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
ALL GOVERNMENTAL FUND TYPES  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
Year ended June 30, 2006

	GENERAL	MAJOR STREETS	DOWNTOWN DEVELOPMENT AUTHORITY	CAPITAL PROJECTS	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
General property taxes	\$ 634,476	\$ 0	\$ 216,995	\$ 0	\$ 0	\$ 851,471
State shared revenues and grants	329,768	229,049	0	0	97,261	656,078
Charges for services	160,506	0	0	0	0	160,506
Licenses and permits	0	0	0	0	0	0
Fines and forfeitures	8,836	0	0	0	0	8,836
Interest and rentals	207,335	1,440	4,077	15,427	1,844	230,123
Bond/loan proceeds	1,202,431	0	0	0	0	1,202,431
Other	80,035	0	0	160,265	102,971	343,271
TOTAL REVENUES	\$ 2,623,387	\$ 230,489	\$ 221,072	\$ 175,692	\$ 202,076	\$ 3,452,716
EXPENDITURES						
General government	\$ 732,582	\$ 0	\$ 7,720	\$ 2,763	\$ 11,429	\$ 754,494
Public safety	609,232	0	0	0	0	609,232
Public works	493,038	166,094	2,888	0	114,482	776,502
Recreation	36,534	0	0	0	0	36,534
Debt service	0	0	168,057	0	206,083	374,140
Capital outlay	129,067	1,029,938	0	303,200	166,083	1,628,288
TOTAL EXPENDITURES	\$ 2,000,453	\$ 1,196,032	\$ 178,665	\$ 305,963	\$ 498,077	\$ 4,179,190
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 622,934	\$ (965,543)	\$ 42,407	\$ (130,271)	\$ (296,001)	\$ (726,474)
OTHER FINANCING SOURCES (USES)						
Transfer from other funds	\$ 496,780	\$ 979,486	\$ 0	\$ 1,192,481	\$ 227,619	\$ 2,896,366
Transfer to other funds	(1,380,456)	0	(17,800)	(1,009,130)	0	(2,407,386)
EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	\$ (260,742)	\$ 13,943	\$ 24,607	\$ 53,080	\$ (68,382)	\$ (237,494)
Fund balance - beginning	743,320	124,828	308,803	1,175,710	163,500	2,516,161
FUND BALANCE - ENDING	\$ 482,578	\$ 138,771	\$ 333,410	\$ 1,228,790	\$ 95,118	\$ 2,278,667

Notes to Financial Statements are an integral part of this statement.



CITY OF NORWAY  
RECONCILIATION OF STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
Year ended June 30, 2006

Net change in fund balance - total governmental funds	\$ (237,494)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	828,813
Basis of property sold during the year not recorded as revenue in Statement of Activities	(146,550)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	191,085
Bond/loan proceeds recorded as a revenue in governmental funds and as a liability in Statement of Activities	(1,202,431)
Increase in accrued interest not recorded as expenditure in governmental funds	(1,209)
Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.	(18,850)
Increase in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>(472,702)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>(1,059,338)</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 June 30, 2006

	TELEVISION UTILITY	ELECTRIC UTILITY	OAK CREST GOLF COURSE	WATER UTILITY	SEWER UTILITY	TOTAL
<b>ASSETS</b>						
Current Assets:						
Cash and equivalents	\$ 0	\$ 23,713	\$ 300	\$ 0	\$ 0	\$ 24,013
Accounts receivable	67,561	257,317	1,323	83,109	59,823	469,133
Due from other funds	0	250,000	0	0	0	250,000
Due from other governmental units	0	0	0	0	0	0
Inventory	0	61,817	0	37,197	8,189	107,203
Prepaid expenses	<u>4,411</u>	<u>15,950</u>	<u>2,440</u>	<u>4,802</u>	<u>5,108</u>	<u>32,711</u>
TOTAL CURRENT ASSETS	\$ 71,972	\$ 608,797	\$ 4,063	\$ 125,108	\$ 73,120	\$ 883,060
Restricted Assets	\$ 0	\$ 194,500	\$ 0	\$ 388,060	\$ 15,735	\$ 598,295
Property, Plant and Equipment:						
Utility plant and equipment	\$ 1,049,618	\$ 12,043,622	\$ 2,043,881	\$ 6,079,860	\$ 2,175,267	\$ 23,392,248
Less accumulated depreciation	<u>(839,529)</u>	<u>(5,373,995)</u>	<u>(1,282,585)</u>	<u>(1,927,768)</u>	<u>(888,439)</u>	<u>(10,312,316)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 210,089	\$ 6,669,627	\$ 761,296	\$ 4,152,092	\$ 1,286,828	\$ 13,079,932
Other Assets	\$ <u>0</u>	\$ <u>136,557</u>	\$ <u>0</u>	\$ <u>3,764</u>	\$ <u>0</u>	\$ <u>140,321</u>
TOTAL ASSETS	\$ 282,061	\$ 7,609,481	\$ 765,359	\$ 4,669,024	\$ 1,375,683	\$ 14,701,608
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	\$ 38,541	\$ 64,698	\$ 3,903	\$ 3,499	\$ 7,691	\$ 118,332
Salaries and wages payable	2,804	16,160	3,224	2,967	7,135	32,290
Accrued taxes and withholdings	2,977	27,869	3,713	4,824	5,360	44,743
Accrued interest	0	29,298	0	27,190	0	56,488
Accrued benefits	6,240	43,249	4,771	14,272	26,536	95,068
Capital lease	0	0	0	0	0	0
Due to other funds	56,070	0	133,629	0	374,936	564,635
Due to other governmental units	0	0	0	0	0	0
Security deposits	0	64,659	0	0	0	64,659
Deferred revenue	0	0	0	0	0	0
Current portion of long term liabilities	<u>0</u>	<u>232,603</u>	<u>0</u>	<u>69,000</u>	<u>12,280</u>	<u>313,883</u>
TOTAL CURRENT LIABILITIES	\$ 106,632	\$ 478,536	\$ 149,240	\$ 121,752	\$ 433,938	\$ 1,290,098
Long Term Liabilities	\$ <u>0</u>	\$ <u>1,907,211</u>	\$ <u>0</u>	\$ <u>3,263,000</u>	\$ <u>174,990</u>	\$ <u>5,345,201</u>
TOTAL LIABILITIES	\$ 106,632	\$ 2,385,747	\$ 149,240	\$ 3,384,752	\$ 608,928	\$ 6,635,299
<b>NET ASSETS</b>						
Invested in capital assets - net of related debt	\$ 210,089	\$ 4,529,813	\$ 761,296	\$ 820,092	\$ 1,099,558	\$ 7,420,848
Restricted for debt service	0	194,500	0	199,036	15,735	409,271
Restricted for repairs and reconstruction	0	0	0	189,024	0	189,024
Unrestricted	<u>(34,660)</u>	<u>499,421</u>	<u>(145,177)</u>	<u>76,120</u>	<u>(348,538)</u>	<u>47,166</u>
TOTAL NET ASSETS	\$ 175,429	\$ 5,223,734	\$ 616,119	\$ 1,284,272	\$ 766,755	\$ 8,066,309

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Year ended June 30, 2006

	TELEVISION UTILITY	ELECTRIC UTILITY	OAK CREST GOLF COURSE	WATER UTILITY	SEWER UTILITY	TOTAL
OPERATING REVENUES						
User charges	\$ 717,326	\$ 2,439,971	\$ 427,831	\$ 688,502	\$ 567,320	\$ 4,840,950
Reimbursements	0	0	0	0	0	0
Other	<u>44,558</u>	<u>0</u>	<u>982</u>	<u>42,621</u>	<u>0</u>	<u>88,161</u>
TOTAL OPERATING REVENUES	\$ 761,884	\$ 2,439,971	\$ 428,813	\$ 731,123	\$ 567,320	\$ 4,929,111
OPERATING EXPENSES						
Generation, transmission, distribution and maintenance	\$ 617,716	\$ 1,645,993	\$ 447,939	\$ 324,623	\$ 501,154	\$ 3,537,425
Depreciation	<u>84,998</u>	<u>326,382</u>	<u>23,488</u>	<u>123,193</u>	<u>39,637</u>	<u>597,698</u>
TOTAL OPERATING EXPENSES	\$ <u>702,714</u>	\$ <u>1,972,375</u>	\$ <u>471,427</u>	\$ <u>447,816</u>	\$ <u>540,791</u>	\$ <u>4,135,123</u>
OPERATING INCOME (LOSS)	\$ 59,170	\$ 467,596	\$ (42,614)	\$ 283,307	\$ 26,529	\$ 793,988
NON-OPERATING GAINS (LOSSES)						
Interest	\$ 0	\$ 3,547	\$ 14	\$ 3,419	\$ 0	\$ 6,980
Insurance reimbursement	0	163,147	0	0	0	163,147
Bond interest and fee payments	0	(109,805)	0	(159,126)	(10,208)	(279,139)
Bond discount amortization	0	(21,916)	0	(342)	0	(22,258)
Grant amortization	0	0	(46,799)	(10,206)	(29,614)	(86,619)
NON-OPERATING TRANSFERS						
From other funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
To other funds	<u>(73,955)</u>	<u>(241,159)</u>	<u>(38,817)</u>	<u>(73,955)</u>	<u>(61,094)</u>	<u>(488,980)</u>
NET INCOME (LOSS)	\$ (14,785)	\$ 261,410	\$ (128,216)	\$ 43,097	\$ (74,387)	\$ 87,119
Net assets - beginning	<u>190,214</u>	<u>4,962,324</u>	<u>744,335</u>	<u>1,241,175</u>	<u>841,142</u>	<u>7,979,190</u>
NET ASSETS - ENDING	\$ <u><u>175,429</u></u>	\$ <u><u>5,223,734</u></u>	\$ <u><u>616,119</u></u>	\$ <u><u>1,284,272</u></u>	\$ <u><u>766,755</u></u>	\$ <u><u>8,066,309</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2006

	<u>TELEVISION UTILITY</u>	<u>ELECTRIC UTILITY</u>	<u>OAK CREST GOLF COURSE</u>	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 763,569	\$ 2,410,879	\$ 428,592	\$ 709,823	\$ 555,540	\$ 4,868,403
Payments to suppliers	(423,916)	(887,006)	(153,976)	(140,325)	(196,766)	(1,801,989)
Payments to or on behalf of employees	(187,375)	(709,171)	(354,364)	(191,026)	(296,364)	(1,738,300)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 152,278	\$ 814,702	\$ (79,748)	\$ 378,472	\$ 62,410	\$ 1,328,114
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Transfer from (to) other funds	(73,955)	(241,159)	(38,817)	(73,955)	(61,094)	(488,980)
Insurance proceeds	0	163,147	0	0	0	163,147
Loans from (repaid to) other funds	(7,341)	(250,000)	122,738	0	177,965	43,362
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ (81,296)	\$ (328,012)	\$ 83,921	\$ (73,955)	\$ 116,871	\$ (282,471)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal and interest paid on capital debt	\$ 0	\$ (303,974)	\$ 0	\$ (226,126)	\$ (22,488)	\$ (552,588)
Loan proceeds	0	203,983	0	0	0	203,983
Purchases of capital assets	(70,982)	(537,320)	(4,187)	(65,362)	(156,793)	(834,644)
Funding of restricted accounts	0	18,500	0	(16,448)	0	2,052
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (70,982)	\$ (618,811)	\$ (4,187)	\$ (307,936)	\$ (179,281)	\$ (1,181,197)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest earned	\$ 0	\$ 3,547	\$ 14	\$ 3,419	\$ 0	\$ 6,980
NET INCREASE (DECREASE) IN CASH	\$ 0	\$ (128,574)	\$ 0	\$ 0	\$ 0	\$ (128,574)
Cash and equivalents - beginning	0	152,287	300	0	0	152,587
CASH AND EQUIVALENTS - ENDING	\$ 0	\$ 23,713	\$ 300	\$ 0	\$ 0	\$ 24,013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 59,170	\$ 467,596	\$ (42,614)	\$ 283,307	\$ 26,529	\$ 793,988
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities						
Depreciation	84,998	326,382	23,488	123,193	39,637	597,698
Change in Assets and Liabilities						
Receivables - net	1,685	(29,092)	(221)	(21,300)	(11,780)	(60,708)
Inventory	0	32,090	0	(7,424)	0	24,666
Prepaid expenses	(82)	(627)	260	(1,259)	(102)	(1,810)
Accounts payable	3,143	(16,945)	(11,868)	(6,129)	1,712	(30,087)
Accrued payroll expense	(476)	2,513	(24,692)	(4,140)	(658)	(27,453)
Accrued taxes and withholdings	2,393	16,674	(586)	3,888	3,042	25,411
Accrued interest	0	(1,755)	0	(804)	0	(2,559)
Accrued benefits	1,890	2,866	(23,515)	9,140	4,030	(5,589)
Customer deposits	0	15,000	0	0	0	15,000
Deferred revenue	(443)	0	0	0	0	(443)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 152,278	\$ 814,702	\$ (79,748)	\$ 378,472	\$ 62,410	\$ 1,328,114

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
FIDUCIARY FUND - TAX COLLECTIONS  
STATEMENT OF NET ASSETS  
June 30, 2006

ASSETS

Cash and equivalents	\$ <u>0</u>
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LIABILITIES

Due to other funds	\$ 0
Due to other governmental units	<u>0</u>

TOTAL LIABILITIES	\$ <u>0</u>
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Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
FIDUCIARY FUND - TAX COLLECTIONS  
STATEMENT OF CHANGES IN NET ASSETS  
Year ended June 30, 2006

	BALANCE 30-Jun-05	ADDITIONS	DEDUCTIONS	BALANCE 30-Jun-06
<b>ASSETS</b>				
Cash and equivalents	\$ <u>0</u>	\$ <u>1,476,207</u>	\$ <u>1,476,207</u>	\$ <u>0</u>
 <b>LIABILITIES</b>				
Due to other funds	\$ 0	\$ 247,682	\$ 247,682	\$ 0
Due to other governmental units	<u>0</u>	<u>1,228,525</u>	<u>1,228,525</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	\$ <u>0</u>	\$ <u>1,476,207</u>	\$ <u>1,476,207</u>	\$ <u>0</u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
COMPONENT UNIT  
OAK CREST GOLF CLUB, INC.  
STATEMENT OF NET ASSETS  
June 30, 2006

ASSETS

Current Assets:

Cash and equivalents	\$ 129,572
Accounts receivable	1,306
Inventory	<u>88,517</u>

TOTAL ASSETS \$ 219,395

LIABILITIES

Current Liabilities:

Accounts payable	\$ 31,893
Gift certificates payable	18,389
Accrued payroll, taxes and withholdings	14,572
Other accrued liabilities	<u>8,606</u>

TOTAL LIABILITIES \$ 73,460

Net assets:

Restricted	\$ 50,925
Unrestricted	<u>95,010</u>

TOTAL NET ASSETS \$ 145,935

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
COMPONENT UNIT  
OAK CREST GOLF CLUB, INC.  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2006

OPERATING REVENUES - User charges	\$	358,820
OPERATING EXPENSES - General operations and maintenance		<u>315,426</u>
OPERATING INCOME	\$	43,394
NON-OPERATING GAINS (LOSSES)		
Interest earned	\$	524
Miscellaneous income		60,689
Transfer from City of Norway		10,000
Transfer to Norway Building Authority		<u>(73,249)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$	<u>(2,036)</u>
NET INCOME	\$	41,358
Net assets - beginning		<u>104,577</u>
NET ASSETS - ENDING	\$	<u><u>145,935</u></u>

Notes to Financial Statements are an integral part of this statement.



CITY OF NORWAY  
COMPONENT UNIT  
OAK CREST GOLF CLUB, INC.  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2006

OPERATING ACTIVITIES

Net income (loss)	\$ 41,358
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	609
(Increase) decrease in inventory	(5,817)
Increase (decrease) in accounts payable	5,998
Increase (decrease) in gift certificates payable	(4,439)
Increase (decrease) in accrued payroll, taxes and withholdings	2,873
Increase (decrease) in other accrued liabilities	<u>1,400</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 41,982
Cash and equivalents - beginning	<u>87,590</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>129,572</u></u>

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Norway (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

**Reporting Entity**

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

**BLENDED COMPONENT UNITS**

The Norway Building Authority was established to finance the renovation, construction and equipping of the clubhouse at the Oak Crest Golf Course. All of the activity of the fund which consists solely of the debt service payments are transferred to the Debt Service Fund from the Oak Crest Golf Course, Inc. who is primarily responsible for the debt service payments. As such, the receipts and payments are recorded in the Debt Service Fund.

The Norway Utility Authority was established as a joint venture with the Township of Norway to provide a financing for upgrades to the sewer system to the residents of the two jurisdictions. The City's portion of the debt is recorded on the records of the Sewer Fund and the Township payments are recorded as contributions and the debt services payments are recorded in their entirety within the fund.

Downtown Development Authority - The Downtown Development Authority is governed by a board which has been appointed by the City Council. For financial reporting purposes, the Downtown Development Authority is reported in a separate Special Revenue Fund.

Museum Fund - The Museum Fund is governed by a board that is appointed by the City Council. For financial reporting purposes, the Museum Fund is reported in a separate Special Revenue Fund.

**DISCRETELY PRESENTED COMPONENT UNIT**

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Norway, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**DISCRETELY PRESENTED COMPONENT UNIT (CONTINUED)**

OAK CREST GOLF CLUB, INC. - The Oak Crest Golf Club is governed by a separate commission that is elected by the membership. While the City Council sets membership fees and can limit membership totals, the Council does not approve budgets or expenses. Complete audited financial statements are available at the Oak Crest Golf Club in Norway, Michigan and the City Hall.

**Government-Wide and Fund Financial Statements**

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Taxes Receivable—Current Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on July 1 are payable in one installment by August 15 without penalty. The City bills and collects its own property taxes and also taxes for Dickinson County, the local school district and the intermediate school district. Collections and remittances of county and school taxes are accounted for in the Tax Collection Fund. City real property taxes are recognized when levied and personal property taxes are recognized when received.

The City is permitted to assess 20 mills for general governmental services according to its charter. The City actually assessed 14.8942 mills generating net tax collections of \$634,476 recorded in the general fund and \$216,995 in the Downtown Development Authority.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Downtown Development Authority accounts for the receipts and expenditures associated with improvements to the designated Tax Incremental Financing District.

The Capital Project Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds).

The government reports the following major proprietary funds:

The Television Fund accounts for the activities of the community television/internet system.

The Electric Fund accounts for the activities of the power generation and distribution system.

The Golf Fund accounts for the activities of the Oak Crest Golf Course.

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "due to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Television/Internet	5 to 25 years
Electric System	5 to 40 years
Golf Course	15 to 40 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government's policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is a liability for unpaid accumulated sick leave since the government has a policy to pay a portion of the accumulated benefits to employees upon separation from service with the government in some circumstances. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations– In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity– In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications**

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**Excess of Expenditures Over Appropriations In Budgetary Funds**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

Fund/Activity	Actual	Budget	Variance	%
General-Mayor/Council/Elections	\$ 78,477	\$ 69,210	\$ 9,267	13
General-Public Works - Refuse	167,952	151,408	16,544	11
General-Parks and Recreation	36,534	30,959	5,575	18
General-Transfers	1,380,456	126,136	1,254,320	994
Major Streets-Construction	1,029,928	0	1,029,928	~
Major Streets-Route Maintenance	81,513	47,530	33,983	71
Major Streets-Winter Maintenance	68,321	62,055	6,266	10
Major Streets-Trunkline Maintenance	15,368	8,090	7,278	90
Capital Projects-Transfers	1,009,130	15,000	994,130	6628

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Excess of Expenditures Over Appropriations In Budgetary Funds (continued)**

Fund/Activity	Actual	Budget	Variance	%
Local Streets - Construction	\$ 130,085	\$ 0	\$130,085	~
Local Streets/Route Maintenance	67,689	33,148	34,541	104
Local Streets/Winter Maintenance	46,092	40,493	5,599	14
Museum	47,427	40,257	7,170	18

NOTE B - ACCUMULATED FUND DEFICITS

The City has no accumulated fund balance/retained earnings deficits as of June 30, 2006.

NOTE C - CASH AND EQUIVALENTS

At year end, the carrying amount of the City's deposits (checking, savings, money market and short term certificates of deposit) was \$2,219,684. The City's deposits are in accordance with statutory authority. The bank balance is classified as to credit risk as follows:

Amount insured by the F.D.I.C.	\$ 219,852
Uninsured and collateralized	0
Uninsured, uncollateralized	<u>1,999,832</u>
 TOTAL BANK BALANCE	 \$ 2,219,684 <u>=====</u>

NOTE D - INVESTMENTS

The City adopted an investment policy pursuant to state law. The investments were held in Certificates of Deposit, various short term notes and bonds and a membership in the Upper Peninsula Power Producers Agency, LLC (UPPPA). The City has invested \$215,446 as of the June 30, 2006, and expects to receive an ongoing return of 12% per annum.



CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE E - CHANGES IN CAPITAL ASSETS

Capital asset activity for the City for the year ended June 30, 2006 was as follows:

	Beginning	Additions	Disposals	Ending
<b>Governmental Funds</b>				
Assets not depreciated - Land	\$ 3,615,246	\$ 849	\$ 146,550	\$ 3,469,545
Assets depreciated				
Buildings	2,477,634	35,997	0	2,513,631
Infrastructure	8,694,316	1,238,758	0	9,933,074
Equipment	<u>1,772,417</u>	<u>336,498</u>	<u>0</u>	<u>2,108,915</u>
Total at Historic Cost	\$16,559,613	\$1,612,102	\$ 146,550	\$ 18,025,165
Less Accumulated Depreciation for:				
Buildings	\$ 214,375	\$ 62,045	\$ 0	\$ 276,420
Infrastructure	1,150,859	606,988	0	1,757,847
Equipment	<u>1,103,198</u>	<u>130,442</u>	<u>0</u>	<u>1,233,640</u>
Total Accumulated Depreciation	<u>\$ 2,468,432</u>	<u>\$ 799,475</u>	<u>\$ 0</u>	<u>\$ 3,267,907</u>
Net Governmental Funds - Capital Assets	\$14,091,181			\$ 14,757,258
	=====			=====

	Beginning	Additions	Disposals	Ending
<b>Business Type Funds</b>				
Assets depreciated				
Television/internet system	\$ 978,635	\$ 70,983	\$ 0	\$ 1,049,618
Electric utility system	11,506,302	537,320	0	12,043,622
Golf operations	2,039,694	4,187	0	2,043,881
Water utility system	6,014,498	65,362	0	6,079,860
Sewer utility system	<u>2,018,474</u>	<u>156,793</u>	<u>0</u>	<u>2,175,267</u>
Total at Historic Cost	\$22,557,603	\$ 834,645	\$ 0	\$ 23,392,248
Less Accumulated Depreciation for:				
Television/internet system	\$ 754,531	\$ 84,998	\$ 0	\$ 839,529
Electric utility system	5,047,613	326,382	0	5,373,995
Golf operations	1,212,298	70,287	0	1,282,585
Water utility system	1,794,369	133,399	0	1,927,768
Sewer utility system	<u>819,188</u>	<u>69,251</u>	<u>0</u>	<u>888,439</u>
Total Accumulated Depreciation	<u>\$ 9,627,999</u>	<u>\$ 684,317</u>	<u>\$ 0</u>	<u>\$10,312,316</u>
Net Business Type Funds - Capital Assets	\$12,929,604			\$13,079,932
	=====			=====

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE F - EMPLOYEE RETIREMENT

The City of Norway contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 with full benefits.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits range are 2.5% of final average compensation for their last three years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually for beneficiaries.

GASB 25 INFORMATION (as of 12/31/05)

Actuarial Accrued Liability:

Retiree and beneficiaries currently receiving benefits	\$ 8,848,041
Terminated employees not yet receiving benefits	30,375
Non-vested terminated employees	5,081
Current employees:	
Accumulated employee contributions including allocated investment income	782,250
Employer financed	<u>3,070,637</u>
Total Actuarial Liability	\$ 12,736,384
Net assets available for benefits, at actuarial value (Market Value is \$7,418,339)	<u>7,814,756</u>
Unfunded (overfunded) actuarial accrued liability	\$ 4,921,628

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE F - EMPLOYEE RETIREMENT (CONTINUED)

GASB 27 INFORMATION (as of 12/31/04)

Fiscal year beginning	July 1, 2007
Annual required contributions (ARC)	\$ 371,040
Amortization factor used	0.053632

NOTE G - COMPENSATED ABSENCES

The various contracts and agreements covering the City's personnel allow for vesting and/or accumulation of sick and vacation pay as follows:

Sick Leave - Earned at the rate of various days per year with an accumulation limit of 120 and a 35% vesting feature for AFSCME and AFL-CIO and a 40% vesting feature for IBEW - Supervisory and 150 days and a 35% vesting feature for IBEW - Electrical.

Vacation Leave - unlimited accumulation of unused days with 100% vesting.

Those amounts required to be accrued have been recorded in the various funds as follows:

	<u>Amount</u>
General Fund (current)	\$ 7,459
Oak Crest Golf Course	4,771
Electric Utility	43,249
Water Utility	14,272
Sewer Utility	26,537
Television Utility	6,240

NOTE H - LONG TERM DEBT

NORWAY BUILDING AUTHORITY BONDS

The Norway Building Authority originally issued \$850,000 of revenue bonds during 1993 for the construction of a new golf clubhouse. The bonds are a primary obligation of the Norway Building Authority with the City being secondarily liable. Payment of the bonds on September 1, 1993 and runs to September 1, 2014, with an interest rate varying from 5.75% to 8%.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE H - LONG TERM DEBT

NORWAY BUILDING AUTHORITY BONDS (CONTINUED)

The bonds were refinanced in September, 2003 in the amount of \$615,000 plus a three percent premium of \$18,450. Semi-annual payments of \$36,625 are due March 1 and September 1 through 2014.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	51,196	22,053	73,249
2007-2008	53,468	19,781	73,249
2008-2009	55,842	17,407	73,249
2009-2010	58,320	14,929	73,249
2010-2011	60,908	12,341	73,249
2011-ON	<u>235,269</u>	<u>21,105</u>	<u>256,372</u>
TOTALS	\$ 515,003	\$ 107,616	\$ 622,619

1994 DOWNTOWN DEVELOPMENT AUTHORITY BONDS

The Downtown Development Authority originally issued \$400,000 of revenue bonds for the development of the downtown area. Payment of the bonds begin in 1996 and run to 2005, with interest rates varying from 6.4% to 7.4%.

The bonds were sold in June, 1994 in the amount of \$400,000. Semi-annual payments are due on June 1 and December 1 through 2005.

This issue was paid in full during the current fiscal year.

2001 DOWNTOWN DEVELOPMENT AUTHORITY BONDS

The Downtown Development Authority issued \$995,000 of general obligation limited tax development bonds on April 1, 2001, for the development of the downtown area. Payment of the bonds begin in 2001 and run to 2023, with interest rates varying from 4.5% to 5.3%.

The bonds were originally sold in March, 2001 in the amount of \$995,000. Semi-annual payments are due December 1 and June 1 through 2023.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE H - LONG TERM DEBT

2001 DOWNTOWN DEVELOPMENT AUTHORITY BONDS (CONTINUED)

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	25,000	48,150	73,150
2007-2008	30,000	47,025	77,025
2008-2009	35,000	45,675	80,675
2009-2010	35,000	44,100	79,100
2010-2011	40,000	42,525	82,525
2011-ON	<u>785,000</u>	<u>286,543</u>	<u>1,071,543</u>
TOTALS	\$ 950,000	\$ 514,018	\$ 1,464,018

2005 DOWNTOWN DEVELOPMENT AUTHORITY BONDS

The Downtown Development Authority issued \$900,000 of general obligation limited tax development bonds on June 1, 2005, for the development of the downtown area. Payment of the bonds begin in 2005 and run to 2024, with interest rates varying from 3.5% to 5.0%.

The bonds were originally sold in June, 2005 in the amount of \$900,000 less a one percent discount of \$9,000. Semi-annual payments are due December 1 and June 1 through 2024.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	10,000	37,645	47,645
2007-2008	15,000	37,207	52,207
2008-2009	15,000	36,683	51,683
2009-2010	20,000	36,070	56,070
2010-2011	20,000	36,070	56,070
2011-ON	<u>815,000</u>	<u>280,813</u>	<u>1,095,813</u>
TOTALS	\$ 900,000	\$ 463,700	\$ 1,363,700

FIRE HALL BONDS

The Norway Building Authority issued \$680,000 of bonds which were sold entirely to the Rural Development on May 17, 2001. The proceeds were used to construct a replacement fire hall to service the City of Norway and carry an interest rate of 4.75%.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE J - LONG TERM DEBT (CONTINUED)

FIRE HALL BONDS (CONTINUED)

Bonds are subject to redemption prior to maturity, in inverse numerical order, at the option of the City on any interest payment date at par and accrued interest to the date fixed for redemption.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	16,000	28,785	44,785
2007-2008	17,000	28,001	45,001
2008-2009	18,000	27,170	45,170
2009-2010	19,000	26,291	45,291
2010-2011	20,000	25,365	45,365
2011-ON	<u>524,000</u>	<u>228,095</u>	<u>752,095</u>
TOTALS	\$ 614,000	\$ 363,708	\$ 977,708

CITY HALL BONDS

The City issued \$995,000 of general obligation limited tax bonds on June 1, 2001 for the demolition, equipping and replacement of the City Hall. Payment of the bonds begin in 2002 and run to 2021, with interest rates varying from 4.5% to 5.2%.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	35,000	42,765	77,765
2007-2008	40,000	41,190	81,190
2008-2009	40,000	39,390	79,390
2009-2010	45,000	37,590	82,590
2010-2011	45,000	35,565	80,565
2011-ON	<u>690,000</u>	<u>237,585</u>	<u>927,585</u>
TOTALS	\$ 850,000	\$ 398,520	\$1,248,520

2006 STREET IMPROVEMENT BONDS

The City issued \$995,000 of general obligation limited tax bonds on June 1, 2006 to construct, repair and improve its streets. Payment of the bonds begin in 2006 and run to 2021, with interest rates varying from 3.8% to 4.8%.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE J - LONG TERM DEBT (CONTINUED)

2006 STREET IMPROVEMENT BONDS (CONTINUED)

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	50,000	42,841	92,841
2007-2008	55,000	40,823	95,823
2008-2009	60,000	38,678	98,678
2009-2010	65,000	36,308	101,308
2010-2011	65,000	33,675	98,675
2011-ON	<u>700,000</u>	<u>174,685</u>	<u>874,685</u>
TOTALS	\$ 995,000	\$ 367,009	\$ 1,362,009

TRUCK BANK LOAN

The City borrowed \$207,431 on March 10, 2006 for the acquisition of trucks to be used in the Public Works Department. The loan calls for quarterly payments of \$8,698 beginning in May, 2006 and carries an interest rate of 4.5%. The loan has a balloon payment due on March 10, 2009, of \$135,228.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	25,340	9,452	34,792
2007-2008	27,247	7,544	34,791
2008-2009	<u>147,780</u>	<u>4,843</u>	<u>152,623</u>
TOTALS	\$ 200,367	\$ 21,839	\$ 222,206

NOTE K - PROPRIETARY FUND LONG TERM DEBT

NORWAY UTILITIES AUTHORITY

The Norway Utilities Authority originally issued \$1,010,000 of bonds which were sold entirely to the Farmers Home Administration (now Rural Development). The proceeds were used to improve, enlarge and extend a sewer disposal system to service the City of Norway and Township of Norway, each constituent members of the Authority. The bonds, dated June 6, 1978, carry an interest rate of 5.0%.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

NORWAY UTILITIES AUTHORITY (CONTINUED)

Bonds maturing in the years 1989 to 2018, inclusive, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Authority on any interest payment date on or after August 1, 1988, at par and accrued interest to the date fixed for redemption.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	20,000	15,250	35,250
2007-2008	20,000	14,250	34,250
2008-2009	20,000	13,250	33,250
2009-2010	20,000	12,250	32,250
2010-2011	25,000	11,250	36,250
2011-ON	<u>200,000</u>	<u>42,250</u>	<u>242,250</u>
TOTALS	\$ 305,000	\$ 108,500	\$ 413,500

ELECTRIC UTILITY SYSTEM REVENUE BONDS

In 1982-1983, the City undertook a major construction project which included improvements to their existing electrical utility system. Specifically, this project included the purchase and installation of two 900 kilowatt generating units, transmission lines and auxiliary equipment and the construction of certain concrete structural improvements to the existing hydroelectric facility with an estimated cost of \$2,500,000.

The City initially borrowed \$ 2,290,000 from the Farmers Home Administration, an agency of the United States Government. The bonds were refinanced in 1987 and again in 1994.

The 1994 refinancing was a defeasance with the 1987 bonds being called in 1999. The bonds carry interest rates varying from 3.1% to 5.375%. The bonds are subject to redemption prior to maturity, in inverse order, at the City's option on any interest payment date, at par plus accrued interest to the date fixed for redemption.



CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

ELECTRIC UTILITY SYSTEM REVENUE BONDS (CONTINUED)

The repayment schedule, including interest, will be as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	155,000	57,781	212,781
2007-2008	165,000	49,450	214,450
2008-2009	175,000	40,581	215,581
2009-2010	185,000	31,175	216,175
2010-2011	190,000	21,231	211,231
2011-ON	<u>205,000</u>	<u>11,019</u>	<u>216,019</u>
TOTALS	\$1,075,000	\$ 211,238	\$ 1,286,238

2002 ELECTRIC UTILITY SYSTEM REVENUE BONDS

The City issued \$995,000 of limited revenue bonds on June 3, 2002, for the updating of the power dam and automation of the plant. Payment of the bonds begin in 2002 and run to 2017, with interest rates varying from 4.3% to 5.15%.

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	40,000	41,917	81,917
2007-2008	40,000	40,198	80,198
2008-2009	45,000	38,477	83,477
2009-2010	45,000	36,543	81,543
2010-2011	50,000	34,540	84,540
2011-ON	<u>650,000</u>	<u>123,165</u>	<u>773,165</u>
TOTALS	\$ 870,000	\$ 314,840	\$ 1,184,840

ELECTRIC EQUIPMENT LOAN

The City borrowed \$203,983 on January 20, 2006 for the purchase of trucks and trailers to be used in the Electric Department. This equipment had originally been leased by the City. The loan calls for quarterly payments of \$11,464 beginning in April, 2006 and carries an interest rate of 4.5%. The loan has a balloon payment due on January 20, 2009, of \$98,652.

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

ELECTRIC EQUIPMENT LOAN (CONTINUED)

Debt requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	37,603	8,253	45,856
2007-2008	39,332	6,524	45,856
2008-2009	<u>117,879</u>	<u>3,702</u>	<u>121,581</u>
TOTALS	\$ 194,814	\$ 18,479	\$ 213,293

1999 WATER UTILITY SYSTEM REVENUE BONDS

In 1987, the City issued revenue bonds in the amount of \$750,000 for the construction of improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon. During the 1998-1999 year, the bonds were refinanced through the Michigan Municipal Finance Authority. This refinancing reduced the interest to an effective interest rate of 5.012%.

The revised repayment schedule, including interest, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	25,000	29,320	54,320
2007-2008	30,000	27,335	57,335
2008-2009	30,000	20,933	50,933
2009-2010	35,000	19,290	54,290
2010-2011	35,000	17,488	52,488
2011-ON	<u>325,000</u>	<u>40,786</u>	<u>365,786</u>
TOTALS	\$ 480,000	\$ 155,153	\$ 635,153

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE K - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

1997 WATER UTILITY SYSTEM REVENUE BONDS

In 1997, the City authorized issuance of revenue bonds in the amount of \$3,172,000 for the purpose of making improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund and the entire amount was purchased by Rural Development, an agency of the United States Government. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon.

The repayment schedule, including interest, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	44,000	127,350	171,350
2007-2008	46,000	125,325	171,325
2008-2009	48,000	123,210	171,210
2009-2010	50,000	121,005	171,005
2010-2011	53,000	118,688	171,688
2011-ON	<u>2,611,000</u>	<u>1,812,172</u>	<u>4,423,172</u>
TOTALS	\$2,852,000	\$2,427,750	\$ 5,279,750

NOTE L - DUE TO/FROM OTHER FUNDS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. A summary of balances of interfund receivables and payables as of June 30, 2006 follows:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	Capital Projects	\$ 63,976
General	Television	56,070
General	Golf	133,629
General	Sewer	374,936
Electric	General	250,000

CITY OF NORWAY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

NOTE M - RISK MANAGEMENT

The City of Norway is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Norway maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE N - RECLASSIFICATION

Certain reclassifications have been made in the 2005 comparative totals to conform to classifications used in 2006.

REQUIRED  
SUPPLEMENTAL  
INFORMATION

CITY OF NORWAY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
Year ended June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 743,320	\$ 743,320	\$ 743,320	\$ 0
Resources (Inflows)				
Property taxes	617,677	625,260	634,476	9,216
State shared revenues and grants	530,823	327,935	329,768	1,833
Fines and forfeitures	7,000	7,500	8,836	1,336
Charges for services	160,000	160,000	160,506	506
Interest and rentals	165,000	169,500	207,335	37,835
Other	163,902	145,262	80,035	(65,227)
Bond/loan proceeds	0	0	1,202,431	1,202,431
Transfer from other funds	<u>676,780</u>	<u>676,780</u>	<u>496,780</u>	<u>(180,000)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ <u>3,064,502</u>	\$ <u>2,855,557</u>	\$ <u>3,863,487</u>	\$ <u>1,007,930</u>
Charges to Appropriations (Outflows)				
General Government				
Mayor/Council/Elections	\$ 68,000	\$ 69,210	\$ 78,477	\$ (9,267)
Administration/Finance/Legal	621,128	633,615	629,021	4,594
Buildings and grounds	20,788	26,187	25,084	1,103
Public Safety				
Police	485,150	559,682	526,579	33,103
Fire	101,420	104,346	82,653	21,693
Public Works				
Maintenance	332,791	350,642	325,086	25,556
Refuse	141,825	151,408	167,952	(16,544)
Parks and Recreation	28,106	30,959	36,534	(5,575)
Capital Outlay	395,950	131,697	129,067	2,630
Transfers to other funds	<u>126,136</u>	<u>126,136</u>	<u>1,380,456</u>	<u>(1,254,320)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>2,321,294</u>	\$ <u>2,183,882</u>	\$ <u>3,380,909</u>	\$ <u>(1,197,027)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>743,208</u></u>	\$ <u><u>671,675</u></u>	\$ <u><u>482,578</u></u>	\$ <u><u>(189,097)</u></u>

CITY OF NORWAY  
BUDGETARY COMPARISON SCHEDULE  
MAJOR STREET FUND  
Year ended June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 124,828	\$ 124,828	\$ 124,828	\$ 0
Resources (Inflows)				
State shared revenues and grants	251,289	245,289	229,049	(16,240)
Interest earned	5,000	2,000	1,440	(560)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>979,486</u>	<u>979,486</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 381,117	\$ 372,117	\$ 1,334,803	\$ 962,686
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 1,029,938	\$ (1,029,938)
Route maintenance	38,898	47,530	81,513	(33,983)
Traffic services	2,727	2,227	892	1,335
Winter maintenance	48,898	62,055	68,321	(6,266)
Administration	9,682	9,682	0	9,682
Trunkline maintenance	8,090	8,090	15,368	(7,278)
Transfers to other funds	<u>130,000</u>	<u>100,452</u>	<u>0</u>	<u>100,452</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>238,295</u>	\$ <u>230,036</u>	\$ <u>1,196,032</u>	\$ <u>(965,996)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>142,822</u></u>	\$ <u><u>142,081</u></u>	\$ <u><u>138,771</u></u>	\$ <u><u>(3,310)</u></u>

CITY OF NORWAY  
BUDGETARY COMPARISON SCHEDULE  
DOWNTOWN DEVELOPMENT AUTHORITY  
Year ended June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 308,803	\$ 308,803	\$ 308,803	\$ 0
Resources (Inflows)				
Property taxes	212,266	212,266	216,995	4,729
Interest earned	5,000	4,600	4,077	(523)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 526,069	\$ 525,669	\$ 529,875	\$ 4,206
Charges to Appropriations (Outflows)				
Contracted services	\$ 7,200	\$ 7,639	\$ 7,720	\$ (81)
Supplies and other	0	2,888	2,888	0
Debt service	187,180	174,025	166,408	7,617
Bond discount and administration	3,450	3,450	1,649	1,801
Transfers to other funds	<u>17,800</u>	<u>17,800</u>	<u>17,800</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>215,630</u>	\$ <u>205,802</u>	\$ <u>196,465</u>	\$ <u>9,337</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>310,439</u></u>	\$ <u><u>319,867</u></u>	\$ <u><u>333,410</u></u>	\$ <u><u>13,543</u></u>



CITY OF NORWAY  
BUDGETARY COMPARISON SCHEDULE  
CAPITAL PROJECTS FUND  
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 1,175,710	\$ 1,175,710	\$ 1,175,710	\$ 0
Resources (Inflows)				
State grants	444,875	521,639	0	(521,639)
Sale of property	25,000	121,950	147,699	25,749
Contributions	2,500	12,827	12,566	(261)
Interest earned	7,000	25,000	15,427	(9,573)
Transfers from other funds	<u>995,000</u>	<u>1,041,322</u>	<u>1,192,481</u>	<u>151,159</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 2,650,085	\$ 2,898,448	\$ 2,543,883	\$ (354,565)
Charges to Appropriations (Outflows)				
Capital projects	\$ 1,712,996	\$ 1,529,286	\$ 303,200	\$ 1,226,086
Planning, administration and other	500	4,055	2,763	1,292
Transfers to other funds	<u>0</u>	<u>15,000</u>	<u>1,009,130</u>	<u>(994,130)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>1,713,496</u>	\$ <u>1,548,341</u>	\$ <u>1,315,093</u>	\$ <u>233,248</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>936,589</u></u>	\$ <u><u>1,350,107</u></u>	\$ <u><u>1,228,790</u></u>	\$ <u><u>(121,317)</u></u>

CITY OF NORWAY  
MERS PENSION FUNDING AND STATISTICS  
JUNE 30, 2006

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-03	7,381,418	11,197,388	3,815,970	66%	1,388,852	275%
31-Dec-04	7,599,829	12,048,755	4,448,926	63%	1,486,599	299%
31-Dec-05	7,814,756	12,736,384	4,921,628	61%	1,407,404	350%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-03	280,326	100%
31-Dec-04	326,908	100%
31-Dec-05	322,977	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.16%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL

INFORMATION

CITY OF NORWAY  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
June 30, 2006

	<u>LOCAL STREET</u>	<u>MUSEUM</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash and equivalents	\$ 48,242	\$ 40,873	\$ 0	\$ 89,115
Investments	0	0	0	0
Accounts receivable	0	0	0	0
Due from other funds	0	0	0	0
Due from other governmental units	14,906	0	0	14,906
Other assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>63,148</u></b>	<b>\$ <u>40,873</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>104,021</u></b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 2,926	\$ 4,596	\$ 0	\$ 7,522
Salaries and wages payable	620	663	0	1,283
Accrued taxes and withholdings	47	51	0	98
Accrued interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 3,593</b>	<b>\$ 5,310</b>	<b>\$ 0</b>	<b>\$ 8,903</b>
<b>FUND EQUITY</b>				
Fund balance:				
Unreserved-undesignated	\$ <u>59,555</u>	\$ <u>35,563</u>	\$ <u>0</u>	\$ <u>95,118</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>63,148</u></b>	<b>\$ <u>40,873</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>104,021</u></b>

CITY OF NORWAY  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE  
Year ended June 30, 2006

	<u>LOCAL STREET</u>		<u>MUSEUM</u>		<u>DEBT SERVICE</u>		<u>TOTAL</u>
<b>REVENUES</b>							
State shared revenues	\$ 97,261	\$	0	\$	0	\$	97,261
Property taxes	0		0		0		0
Local grant	0		1,000		0		1,000
Interest earned	1,293		551		0		1,844
Contributions	0		38,722		63,249		101,971
Other	<u>0</u>		<u>0</u>		<u>0</u>		<u>0</u>
<b>TOTAL REVENUES</b>	<b>\$ 98,554</b>	<b>\$</b>	<b>40,273</b>	<b>\$</b>	<b>63,249</b>	<b>\$</b>	<b>202,076</b>
<b>EXPENDITURES</b>							
Construction	\$ 130,085	\$	0	\$	0	\$	130,085
Maintenance	67,689		0		0		67,689
Traffic service maintenance	701		0		0		701
Winter maintenance	46,092		0		0		46,092
Administration and engineering	0		11,429		0		11,429
Debt service	0		0		206,083		206,083
Capital outlay	<u>0</u>		<u>35,998</u>		<u>0</u>		<u>35,998</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ 244,567</b>	<b>\$</b>	<b>47,427</b>	<b>\$</b>	<b>206,083</b>	<b>\$</b>	<b>498,077</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>							
	\$ (146,013)	\$	(7,154)	\$	(142,834)	\$	(296,001)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfer from other funds	\$ 65,044	\$	19,741	\$	142,834	\$	227,619
Transfer to other funds	<u>0</u>		<u>0</u>		<u>0</u>		<u>0</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES</b>							
	\$ (80,969)	\$	12,587	\$	0	\$	(68,382)
Fund balance - beginning	<u>140,524</u>		<u>22,976</u>		<u>0</u>		<u>163,500</u>
<b>FUND BALANCE - ENDING</b>	<b>\$ 59,555</b>	<b>\$</b>	<b>35,563</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>95,118</b>

CITY OF NORWAY  
ELECTRIC UTILITY FUND  
BALANCE SHEET  
June 30, 2006 and 2005

		<u>2006</u>	<u>2005</u>
<b>ASSETS</b>			
Current Assets:			
Cash and equivalents	\$	23,713	\$ 152,287
Accounts receivable		257,317	228,225
Due from other funds		250,000	0
Inventory		61,817	93,907
Prepaid expenses		<u>15,950</u>	<u>15,323</u>
TOTAL CURRENT ASSETS	\$	608,797	\$ 489,742
Restricted Assets:			
Bond reserve account	\$	194,500	\$ 213,000
Property, Plant and Equipment:			
Electric system	\$	12,043,622	\$ 11,506,302
Less accumulated depreciation		<u>(5,373,995)</u>	<u>(5,047,613)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$	6,669,627	\$ 6,458,689
Other Asset - Bond discount	\$	<u>136,557</u>	<u>\$ 158,473</u>
TOTAL ASSETS	\$	<u><u>7,609,481</u></u>	<u><u>\$ 7,319,904</u></u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$	64,698	\$ 81,643
Salaries and wages payable		16,160	13,647
Accrued taxes and withholdings		14,251	4,882
Accrued benefits		43,249	40,383
Sales tax payable		13,618	6,313
Customer deposits		64,659	49,659
Accrued interest		29,298	31,053
Current portion of long term debt		<u>232,603</u>	<u>185,000</u>
TOTAL CURRENT LIABILITIES	\$	478,536	\$ 412,580
Long Term Debt - Revenue bonds payable		<u>1,907,211</u>	<u>1,945,000</u>
TOTAL LIABILITIES	\$	2,385,747	\$ 2,357,580
<b>FUND EQUITY</b>			
Retained earnings:			
Reserved	\$	194,500	\$ 213,000
Unreserved		<u>5,029,234</u>	<u>4,749,324</u>
TOTAL FUND EQUITY	\$	<u><u>5,223,734</u></u>	<u><u>\$ 4,962,324</u></u>
TOTAL LIABILITIES AND FUND EQUITY	\$	<u><u>7,609,481</u></u>	<u><u>\$ 7,319,904</u></u>

CITY OF NORWAY  
ELECTRIC UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
ACTUAL AND BUDGET  
Year ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
User charges	\$ 2,439,971	\$ 2,312,855
Reimbursements	<u>0</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 2,439,971	\$ 2,312,855
OPERATING EXPENSES		
Generation, distribution and maintenance	\$ 1,645,993	\$ 1,346,878
Depreciation	<u>326,382</u>	<u>309,751</u>
TOTAL OPERATING EXPENSES	\$ <u>1,972,375</u>	\$ <u>1,656,629</u>
OPERATING INCOME	\$ 467,596	\$ 656,226
NON-OPERATING GAINS (LOSSES)		
Interest income	\$ 3,547	\$ 1,379
Insurance reimbursement	163,147	29,370
Bond interest payments	(109,805)	(115,035)
Bond discount amortization	(21,916)	(21,916)
Transfer from other funds	0	11,676
Transfer to other funds	<u>(241,159)</u>	<u>(186,676)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ <u>(206,186)</u>	\$ <u>(281,202)</u>
NET INCOME	\$ 261,410	\$ 375,024
Retained earnings - beginning	<u>4,962,324</u>	<u>4,587,300</u>
RETAINED EARNINGS - ENDING	\$ <u><u>5,223,734</u></u>	\$ <u><u>4,962,324</u></u>

CITY OF NORWAY  
STATEMENT OF CASH FLOWS  
ELECTRIC UTILITY FUND  
Year ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,410,879	\$ 2,303,302
Payments to suppliers	(887,006)	(688,797)
Payments to or on behalf of employees	<u>(709,171)</u>	<u>(655,878)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 814,702</b>	<b>\$ 958,627</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer from (to) other funds	\$ (241,159)	\$ (175,000)
Insurance proceeds	163,147	29,369
Loans (to) from other funds	<u>(250,000)</u>	<u>(193,368)</u>
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ (328,012)</b>	<b>\$ (338,999)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal and interest paid on capital debt	\$ (303,974)	\$ (290,035)
Loans proceeds	203,983	0
Purchases of capital assets	(537,320)	(196,185)
Funding of restricted accounts	<u>18,500</u>	<u>17,500</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (618,811)</b>	<b>\$ (468,720)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ <u>3,547</u>	\$ <u>1,379</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ (128,574)</b>	<b>\$ 152,287</b>
Cash and equivalents - beginning	<u>152,287</u>	<u>0</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u><u>23,713</u></u></b>	<b>\$ <u><u>152,287</u></u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 467,596	\$ 656,226
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	326,382	309,751
Change in Assets and Liabilities		
Receivables - net	(29,092)	(9,553)
Inventory	32,090	(32,165)
Prepaid expenses	(627)	(154)
Accounts payable	(16,945)	50,806
Accrued payroll expense	2,513	(6,922)
Accrued taxes and withholdings	9,369	1,611
Accrued sales tax	7,305	476
Accrued benefits	2,866	(19,173)
Accrued interest	(1,755)	(3,261)
Customer deposits	<u>15,000</u>	<u>10,985</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u><u>814,702</u></u></b>	<b>\$ <u><u>958,627</u></u></b>



CITY OF NORWAY  
ELECTRIC UTILITY FUND  
SCHEDULE OF OPERATING EXPENSES  
Year ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Generation, Distribution & Maintenance:		
Salaries and wages	\$ 425,260	\$ 378,751
Employee benefits	295,793	271,816
Supplies and other	<u>924,940</u>	<u>696,311</u>
TOTAL GENERATION, DISTRIBUTION AND MAINTENANCE	\$ 1,645,993	\$ 1,346,878
Depreciation	<u>326,382</u>	<u>309,751</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,972,375</u>	<u>\$ 1,656,629</u>

CITY OF NORWAY  
WATER UTILITY FUND  
BALANCE SHEET  
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 0	\$ 0
Accounts receivable	83,109	61,809
Inventory	37,197	29,773
Prepaid expenses	<u>4,802</u>	<u>3,543</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 125,108</b>	<b>\$ 95,125</b>
Restricted Assets:		
Revenue bond and interest redemption	\$ 43,336	\$ 43,336
Water supply replacement fund	107,675	107,675
Water supply improvement fund	81,349	82,201
Bond reserve - junior indenture	<u>155,700</u>	<u>138,400</u>
<b>TOTAL RESTRICTED ASSETS</b>	<b>\$ 388,060</b>	<b>\$ 371,612</b>
Property, Plant and Equipment:		
Water system	\$ 6,079,860	\$ 6,014,498
Less accumulated depreciation	<u>(1,927,768)</u>	<u>(1,794,369)</u>
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>\$ 4,152,092</b>	<b>\$ 4,220,129</b>
Other Asset - Bond discount	\$ <u>3,764</u>	\$ <u>4,106</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>4,669,024</u></b>	<b>\$ <u>4,690,972</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 3,499	\$ 9,628
Salaries and wages payable	2,967	7,107
Accrued taxes and withholdings	4,824	936
Accrued benefits	14,272	5,132
Accrued interest	27,190	27,994
Current portion of long term debt	<u>69,000</u>	<u>67,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 121,752</b>	<b>\$ 117,797</b>
Long Term Debt - Revenue bonds payable	<u>3,263,000</u>	<u>3,332,000</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 3,384,752</b>	<b>\$ 3,449,797</b>
<b>FUND EQUITY</b>		
Contributed capital:		
Municipality	\$ 59,520	\$ 59,520
Federal government	<u>146,285</u>	<u>156,491</u>
<b>TOTAL CONTRIBUTED CAPITAL</b>	<b>\$ 205,805</b>	<b>\$ 216,011</b>
Retained earnings:		
Reserved	\$ 388,060	\$ 371,612
Unreserved	<u>690,407</u>	<u>653,552</u>
<b>TOTAL RETAINED EARNINGS</b>	<b>\$ <u>1,078,467</u></b>	<b>\$ <u>1,025,164</u></b>
<b>TOTAL FUND EQUITY</b>	<b>\$ <u>1,284,272</u></b>	<b>\$ <u>1,241,175</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>4,669,024</u></b>	<b>\$ <u>4,690,972</u></b>

CITY OF NORWAY  
WATER UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
ACTUAL AND BUDGET  
Year ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
User charges	\$ 688,502	\$ 604,158
State grants	9,621	7,593
Hydrant rentals	<u>33,000</u>	<u>33,000</u>
TOTAL OPERATING REVENUES	\$ 731,123	\$ 644,751
OPERATING EXPENSES		
Transmission, distribution and maintenance	\$ 324,623	\$ 329,214
Depreciation	<u>123,193</u>	<u>133,762</u>
TOTAL OPERATING EXPENSES	\$ <u>447,816</u>	\$ <u>462,976</u>
OPERATING INCOME	\$ 283,307	\$ 181,775
NON-OPERATING GAINS (LOSSES)		
Interest	\$ 3,419	\$ 2,354
Bond interest payments	(159,126)	(162,858)
Bond discount amortization	(342)	(342)
Transfer from other funds	0	9,196
Transfer to other funds	<u>(73,955)</u>	<u>(109,054)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ <u>(230,004)</u>	\$ <u>(260,704)</u>
NET INCOME	\$ 53,303	\$ (78,929)
Retained earnings - beginning	<u>1,025,164</u>	<u>1,104,093</u>
RETAINED EARNINGS - ENDING	<u>\$ 1,078,467</u>	<u>\$ 1,025,164</u>

CITY OF NORWAY  
STATEMENT OF CASH FLOWS  
WATER UTILITY FUND  
Year ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 709,823	\$ 642,803
Payments to suppliers	(140,325)	(132,405)
Payments to or on behalf of employees	<u>(191,026)</u>	<u>(197,608)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 378,472</b>	<b>\$ 312,790</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer from (to) other funds	\$ (73,955)	\$ (99,858)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal and interest paid on capital debt	\$ (226,126)	\$ (227,858)
Purchases of capital assets	(65,362)	0
Funding of restricted accounts	<u>(16,448)</u>	<u>8,055</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (307,936)</b>	<b>\$ (219,803)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ <u>3,419</u>	\$ <u>2,354</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 0</b>	<b>\$ (4,517)</b>
Cash and equivalents - beginning	<u>0</u>	<u>4,517</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u><u>0</u></u></b>	<b>\$ <u><u>0</u></u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 283,307	\$ 181,775
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	123,193	133,762
Change in Assets and Liabilities		
Receivables - net	(21,300)	(1,948)
Inventory	(7,424)	(1,000)
Prepaid expenses	(1,259)	184
Accounts payable	(6,129)	6,693
Accrued payroll expense	(4,140)	1,382
Accrued taxes and withholdings	3,888	498
Accrued benefits	9,140	(8,256)
Accrued interest	<u>(804)</u>	<u>(300)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u><u>378,472</u></u></b>	<b>\$ <u><u>312,790</u></u></b>

CITY OF NORWAY  
WATER UTILITY FUND  
SCHEDULE OF OPERATING EXPENSES  
Year ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 100,994	\$ 108,519
Employee benefits	89,780	90,969
Supplies and other	<u>133,849</u>	<u>129,726</u>
 TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE	 \$ 324,623	 \$ 329,214
Depreciation	<u>123,193</u>	<u>133,762</u>
 TOTAL OPERATING EXPENSES	 \$ <u><u>447,816</u></u>	 \$ <u><u>462,976</u></u>

CITY OF NORWAY  
SEWER UTILITY FUND  
BALANCE SHEET  
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 0	\$ 0
Accounts receivable	59,823	48,043
Inventory	8,189	8,189
Prepaid expenses	<u>5,108</u>	<u>5,006</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 73,120</b>	<b>\$ 61,238</b>
Restricted Assets - bond reserve account	\$ 15,735	\$ 15,735
Property, Plant and Equipment:		
Sewage plant, lines and vehicles	\$ 2,175,267	\$ 2,018,474
Less accumulated depreciation	<u>(888,439)</u>	<u>(819,188)</u>
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>\$ 1,286,828</b>	<b>\$ 1,199,286</b>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,375,683</u></b>	<b>\$ <u>1,276,259</u></b>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 7,691	\$ 5,979
Salaries and wages payable	7,135	7,793
Accrued taxes and withholdings	5,360	2,318
Due to other funds	374,936	196,971
Accrued benefits	26,537	22,507
Current portion of long term debt	<u>12,280</u>	<u>12,280</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 433,939</b>	<b>\$ 247,848</b>
Long Term Debt - Revenue bonds payable	\$ <u>174,990</u>	\$ <u>187,270</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 608,929</b>	<b>\$ 435,118</b>
<b>FUND EQUITY</b>		
Contributed capital		
Municipality	\$ 78,000	\$ 78,000
Federal government	<u>227,345</u>	<u>256,959</u>
<b>TOTAL CONTRIBUTED CAPITAL</b>	<b>\$ 305,345</b>	<b>\$ 334,959</b>
Retained earnings:		
Reserved	\$ 15,735	\$ 15,735
Unrestricted, undesignated	<u>445,674</u>	<u>490,447</u>
<b>TOTAL RETAINED EARNINGS</b>	<b>\$ 461,409</b>	<b>\$ 506,182</b>
<b>TOTAL FUND EQUITY</b>	<b>\$ 766,754</b>	<b>\$ 841,141</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>1,375,683</u></b>	<b>\$ <u>1,276,259</u></b>

CITY OF NORWAY  
SEWER UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
ACTUAL AND BUDGET  
Year ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
User charges	\$ 567,320	\$ 470,519
Reimbursement	<u>0</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 567,320	\$ 470,519
OPERATING EXPENSES		
Transmission, distribution and maintenance	\$ 501,154	\$ 435,719
Depreciation	<u>39,637</u>	<u>52,638</u>
TOTAL OPERATING EXPENSES	\$ <u>540,791</u>	\$ <u>488,357</u>
OPERATING INCOME	\$ 26,529	\$ (17,838)
NON-OPERATING GAINS (LOSSES)		
Interest earned	\$ 0	\$ 0
Bond interest and fee payments	(10,208)	(10,668)
Transfers from other funds	0	20,988
Transfers (to) other funds	<u>(61,094)</u>	<u>(103,759)</u>
TOTAL NON-OPERATING GAINS (LOSSES)	\$ <u>(71,302)</u>	\$ <u>(93,439)</u>
NET INCOME	\$ (44,773)	\$ (111,277)
Retained earnings - beginning	<u>506,182</u>	<u>617,459</u>
RETAINED EARNINGS - ENDING	<u>\$ 461,409</u>	<u>\$ 506,182</u>

CITY OF NORWAY  
STATEMENT OF CASH FLOWS  
SEWER UTILITY FUND  
Year ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 555,540	\$ 468,497
Payments to suppliers	(196,766)	(185,883)
Payments to or on behalf of employees	<u>(296,364)</u>	<u>(255,840)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 62,410</b>	<b>\$ 26,774</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer (to) other funds	\$ (61,094)	\$ (82,771)
Loans received from (repaid to) other funds	<u>177,965</u>	<u>77,042</u>
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ 116,871</b>	<b>\$ (5,729)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal, interest and fees paid on capital debt	\$ (22,488)	\$ (19,878)
Purchases of capital assets	<u>(156,793)</u>	<u>(1,167)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (179,281)</b>	<b>\$ (21,045)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ <u>0</u>	\$ <u>0</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 0</b>	<b>\$ 0</b>
Cash and equivalents - beginning	<u>0</u>	<u>0</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u><u>0</u></u></b>	<b>\$ <u><u>0</u></u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 26,529	\$ (17,838)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	39,637	52,638
Change in Assets and Liabilities		
Receivables - net	(11,780)	(2,022)
Inventory	0	(2,584)
Prepaid expenses	(102)	(1,076)
Accounts payable	1,712	(2,328)
Accrued payroll expense	(658)	236
Accrued taxes and withholdings	3,042	1,740
Accrued benefits	<u>4,030</u>	<u>(1,992)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u><u>62,410</u></u></b>	<b>\$ <u><u>26,774</u></u></b>



CITY OF NORWAY  
SEWER UTILITY FUND  
SCHEDULE OF OPERATING EXPENSES  
Year ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 182,136	\$ 156,567
Employee benefits	116,612	101,249
Supplies and other	<u>202,406</u>	<u>177,903</u>
 TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE	 \$ 501,154	 \$ 435,719
Depreciation	<u>39,637</u>	<u>52,638</u>
 TOTALS	 \$ <u><u>540,791</u></u>	 \$ <u><u>488,357</u></u>

CITY OF NORWAY  
BUDGETARY COMPARISON SCHEDULE  
LOCAL STREET FUND  
Year ended June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 140,524	\$ 140,524	\$ 140,524	\$ 0
Resources (Inflows)				
State shared revenues and grants	109,286	104,786	97,261	(7,525)
Interest earned	4,000	2,000	1,293	(707)
Transfers from other funds	<u>0</u>	<u>50,000</u>	<u>65,044</u>	<u>15,044</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 253,810	\$ 297,310	\$ 304,122	\$ 6,812
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 130,085	\$ (130,085)
Route maintenance	27,265	33,148	67,689	(34,541)
Traffic services	1,827	1,827	701	1,126
Winter maintenance	34,265	40,493	46,092	(5,599)
Administration	9,682	9,682	0	9,682
Transfers to other funds	<u>40,000</u>	<u>196,313</u>	<u>0</u>	<u>196,313</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>113,039</u>	\$ <u>281,463</u>	\$ <u>244,567</u>	\$ <u>36,896</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>140,771</u></u>	\$ <u><u>15,847</u></u>	\$ <u><u>59,555</u></u>	\$ <u><u>43,708</u></u>

CITY OF NORWAY  
BUDGETARY COMPARISON SCHEDULE  
MUSEUM FUND  
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 22,976	\$ 22,976	\$ 22,976	\$ 0
Resources (Inflows)				
Local grant	2,000	1,000	1,000	
Contributions	5,000	27,715	38,722	11,007
Interest earned	1,000	600	551	(49)
Transfers from other funds	<u>2,000</u>	<u>17,000</u>	<u>19,741</u>	<u>2,741</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 32,976	\$ 69,291	\$ 82,990	\$ 13,699
Charges to Appropriations (Outflows)				
Administration	\$ 7,143	\$ 10,257	\$ 11,429	\$ (1,172)
Capital projects	<u>1,000</u>	<u>30,000</u>	<u>35,998</u>	<u>(5,998)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>8,143</u>	\$ <u>40,257</u>	\$ <u>47,427</u>	\$ <u>(7,170)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>24,833</u></u>	\$ <u><u>29,034</u></u>	\$ <u><u>35,563</u></u>	\$ <u><u>6,529</u></u>

CITY OF NORWAY  
BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
Year ended June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 0	\$ 0	\$ 0	0
Resources (Inflows)				
Property taxes	86,000	0	0	0
Contribution from other governmental units	77,386	77,386	63,249	(14,137)
Transfers from other funds	<u>156,624</u>	<u>156,624</u>	<u>142,834</u>	<u>(13,790)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 320,010	\$ 234,010	\$ 206,083	\$ (27,927)
Charges to Appropriations (Outflows)				
Debt service	\$ <u>320,010</u>	\$ <u>234,010</u>	\$ <u>206,083</u>	\$ <u>27,927</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>320,010</u>	\$ <u>234,010</u>	\$ <u>206,083</u>	\$ <u>27,927</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>

# SCOTT R. KENNEY

*Certified Public Accountant*

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INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and City Council  
City of Norway  
915 Main Street  
Norway, MI 49870

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan (City) as of and for the year ended June 30, 2006, which collectively comprise the City of Norway, Michigan's basic financial statements and have issued my report thereon dated November 3, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal

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control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated November 3, 2006.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

  
Certified Public Accountant

November 3, 2006

# SCOTT R. KENNEY

*Certified Public Accountant*

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Honorable Mayor and City Council  
City of Norway  
915 Main Street  
Norway, MI 49870

In conjunction with the audit of the financial statements of the City of Norway as of and for the year ended June 30, 2006, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City of Norway's council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. The first two comments are repeated from the prior year.

1. **OBSERVATION** - The City has not adopted a capitalization policy for equipment and/or capital projects. This policy would assist management in properly classifying expenditures into the correct accounts.

**RECOMMENDATION** - I strongly recommend that the City adopt a formal capitalization policy. Fixed assets with an expected useful life of more than one year and a cost of \$1,000 or more should be capitalized. This policy then needs to be forwarded to department heads for their implementation. In addition, budgets should be reviewed and amended as required utilizing the newly implemented policy.

2. **OBSERVATION** - Internal equipment rentals are used to recover costs from the State on the trunklines for which the City is providing maintenance services. In addition, rentals are assigned to other major and local streets to properly capture costs necessary for the maintenance of those streets. The assignment and summarization of those costs contained multiple errors resulting in costs being improperly assigned.

**RECOMMENDATION** - I recommend that the entire procedure of equipment rentals be reviewed and revised. This would include but not be limited to; educating the Public Works staff about their input to the system, properly identifying equipment and the associated rates, capturing the use of the equipment and proper reporting to the Treasurer and the State of Michigan.

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3. **OBSERVATION** - When the detailed utility accounts receivable were examined, I noted that several of the accounts are severely delinquent.

**RECOMMENDATION** - I recommend that management conduct a thorough review of each of the accounts that are delinquent and take the appropriate action to collect the utility bills. This may include placing the account with a collection agency or placing the billing on the customer property tax assessment.

4. **OBSERVATION** - Capital projects and equipment purchases are being bid as required by statute. However, the bid results are not being included in the minutes of the City Council meetings.

**RECOMMENDATION** - I recommend that the bid results be included in the minutes along with the action taken.

5. **OBSERVATION** - The City is not charging its various departments for utilities except for electricity.

**RECOMMENDATION** - I recommend that the City charge each of its departments for all of the utility services they receive. This is required by some bond ordinances and will more accurately record the costs of operating the departments of the City.

6. **OBSERVATION** - The City has reimbursed employees for travel costs incurred while on City business. In some cases, the City has advanced payments to employees and not always received expenses in support of the advance.

**RECOMMENDATION** - I recommend that the each department head closely scrutinize costs incurred by employees while on City business and only approve appropriate costs. In addition, the City should consider not advancing funds to employees for City travel due to the difficulty in tracking the costs.

7. **OBSERVATION** - Management directed that a physical inventory be taken in all departments. The directive was complied with in all departments except the sewer department. Last year, the water department did not take its inventory. This year, the water department did take its inventory and has now computerized the function which yielded accurate results this year and will assist with inventories in the future.

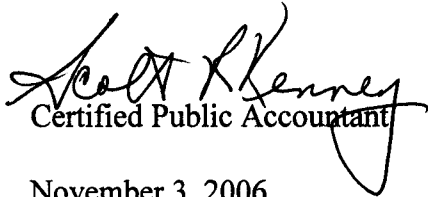
**RECOMMENDATION** - I recommend that all departments take a physical inventory not less than annually at the end of the fiscal year, that the inventory be priced (using historic costs values), extended and footed. In addition, capitalized items should be separated from items that are charged to expenditure/expense accounts to properly state the inventory value.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank Ray, Mary, the office staff and the department heads



for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations, I am willing to help in any way that I can.

  
Certified Public Accountant

November 3, 2006